

Message Text

PAGE 01 STATE 160950
ORIGIN EB-07

INFO OCT-01 EUR-12 EA-07 IO-13 ISO-00 AID-05 TRSE-00
SSO-00 USIE-00 L-03 FRB-03 OMB-01 ITC-01 SP-02
AGRE-00 CIAE-00 COME-00 INR-07 LAB-04 NSAE-00
OIC-02 EPG-02 SIL-01 STR-04 CEA-01 INRE-00 NSC-05
NSCE-00 SS-15 /096 R

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TREASURY - S.CANNER

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AMEMBASSY BONN
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AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY TOKYO
INFO USMISSION GENEVA IMMEDIATE

C O N F I D E N T I A L STATE 160950

PARIS ALSO FOR OECD

E.O. 11652: N/A

TAGS: EFIN, UNCTAD

SUBJECT: UNCTAD AND "DEBT"

1. SUMMARY AND ACTION REQUESTED. USG IS CONCERNED SERI-
CONFIDENTIAL

PAGE 02 STATE 160950

OUSLY ABOUT UNCTAD SECRETARIAT EFFORTS TO MAKE UNCTAD
THE MAJOR INTERNATIONAL FORUM FOR THE DISCUSSION OF LDC
DEBT ISSUES. WHILE IT HAS ONLY LIMITED SUCCESS IN THE
PAST, THE SECRETARIAT (WITH FULL G-77 BACKING) APPEARS
POISED TO EXPAND UNCTAD "DEBT" ACTIVITIES IN THIS POST-
CIEC PERIOD. THE USG OPPOSES STRONGLY ANY EXPANSION OF
UNCTAD INVOLVEMENT IN DEBT ISSUES. WE REGARD IT AS A
PARTICULARLY POOR FORUM FOR SAFEGUARDING ESSENTIAL
CREDITOR COUNTRY DEBT INTERESTS. MOREOVER, WE DO NOT
BELIEVE AN EXPANDED UNCTAD DEBT ROLE WOULD BE IN THE

BEST INTERESTS OF THE LDCS THEMSELVES. AN INTERGOVERNMENT UNCTAD DEBT EXPERTS GROUP IS SCHEDULED TO MEET IN GENEVA JULY 18-22. REQUEST YOU CONTACT APPROPRIATE HOST GOVERNMENT OFFICIALS TO EXPLAIN USG VIEWS REGARDING THE UNCTAD ROLE ON DEBT, AND ASK THAT HOST GOVERNMENTS INSTRUCT GENEVA DELEGATIONS IN SUPPORT OF OUR VIEWS.

2. BACKGROUND (A) IN THE PAST, UNCTAD HAS HAD ONLY A MINOR ROLE ON THE DEBT ISSUE. ITS CURRENT MANDATE COMES FROM RESOLUTION 94 (IV) "DEBT PROBLEMS OF DEVELOPING

COUNTRIES" AGREED AT UNCTAD IV IN NAIROBI. RESOLUTION 94 (IV): INVITES APPROPRIATE EXISTING INTERNATIONAL FORA TO DETERMINE, BEFORE THE END OF 1976, WHAT FEATURES MIGHT USEFULLY BE DISCERNED FROM PAST OPERATIONS, TOGETHER WITH OTHERS THAT MIGHT BE IDENTIFIED IN THE LIGHT OF THE PRESENT SITUATION OF THE LEAST DEVELOPED COUNTRIES, THE MOST SERIOUSLY AFFECTED DEVELOPING COUNTRIES AND OTHER COUNTRIES IN NEED, WHICH COULD PROVIDE GUIDANCE IN FUTURE OPERATIONS RELATING TO DEBT PROBLEMS AS A BASIS FOR DEALING FLEXIBLY WITH INDIVIDUAL CASES. (B) RESOLUTION 94 (IV) ALSO REQUESTS: THE TRADE AND DEVELOPMENT BOARD, AT ITS MINISTERIAL SESSION TO

CONFIDENTIAL

PAGE 03 STATE 160950

BE HELD IN 1977, TO REVIEW THE ACTION TAKEN IN PURSUANCE OF THE PRESENT RESOLUTION, AND REQUESTS THE SECRETARY-GENERAL OF UNCTAD TO CONVENE AN INTERGOVERNMENTAL GROUP OF EXPERTS TO ASSIST AS NECESSARY IN THAT TASK.(END RESOLUTION). THIS IS THE ONLY PARAGRAPH DIRECTING AN ON-GOING UNCTAD ROLE ON DEBT, WITH THE WORD "REVIEW" HAVING BEEN SPECIFICALLY INSERTED TO RESTRICT THE UNCTAD MANDATE AND CLEARLY UNDERSTOOD IN THIS WAY. (C) IT WAS GENERALLY ACCEPTED THAT THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION (CIEC) WAS THE APPROPRIATE FORUM FOR IDENTIFYING THE "FEATURES" CITED IN RESOLUTION 94 (IV). THE US AND THE EUROPEAN COMMUNITY WITH THE SUPPORT OF MOST OTHER DEVELOPED NATIONS MADE A PROPOSAL IN CIEC WHICH HAD THREE PARTS:

-- FIRST, IT DEFINED MEASURES BY DEBTORS AND CREDITORS TO PREVENT DEBT CRISES FROM ARISING,

-- SECOND, IT LAID OUT FEATURES FOR CREDITOR CLUB OPERATIONS, WHICH WOULD INSURE EQUITABLE AND EFFICIENT TREATMENT FOR COUNTRIES EXPERIENCING SEVERE DEBT PROBLEMS.

-- THIRD, IT SUGGESTED PROCEDURES TO MAXIMIZE ASSISTANCE TO LOW INCOME DEVELOPING COUNTRIES EXPERIENCING STRUCTURAL BALANCE OF PAYMENTS PROBLEMS, OF WHICH DEBT IS AN ELEMENT, WHICH UNDULY IMPINGE ON DEVELOPMENT PROSPECTS.

THE DEVELOPING COUNTRIES AT CIEC SHOWED SOME INTEREST IN THE US/EC APPROACH. THEY CONSISTENTLY MAINTAINED, HOWEVER, THAT THEY COULD NOT CONSIDER IT SERIOUSLY UNTIL THEIR DEMANDS FOR IMMEDIATE GENERALIZED DEBT RESCHEDULING WERE MET. THE OUTCOME OF CIEC IN EARLY JUNE WAS THAT ALL PROPOSALS MADE REMAINED ON THE TABLE WITHOUT AGREEMENT ON ANY ASPECTS OF THE DEBT ISSUE. WE CONTINUE TO REGARD THE US/EC PROPOSAL AS A CONSTRUCTIVE, FORTHCOMING APPROACH WHICH REALISTICALLY ADDRESSES THE CONFIDENTIAL

PAGE 04 STATE 160950

DIFFICULTIES OF DEVELOPING COUNTRIES. (D) THE UNCTAD

SECRETARIAT HAS SCHEDULED A MEETING OF AN INTERGOVERNMENTAL GROUP OF EXPERTS (IGE) ON DEBT FOR JULY 18-22. IT IS ALSO INTERESTED IN SCHEDULING A SECOND IGE MEETING FOR OCTOBER. WHILE THE TERMS OF REFERENCE FOR THE FIRST MEETING WILL APPARENTLY BE LIMITED TO REVIEWING IMPLEMENTATION OF RESOLUTION 94 (IV) THE G-77 WILL LIKELY ATTEMPT TO BROADEN THE TERMS OF REFERENCE TO COVER THE WHOLE GAMUT OF DEBT ISSUES. THE UNCTAD SECRETARIAT CAN BE EXPECTED TO SUPPORT AND ENCOURAGE THESE G-77 EFFORTS. IT IS PREPARING FOUR PAPERS FOR PRESENTATION TO THE JULY IGE ON:

- (1) RECENT DEVELOPMENTS ON DEBT ISSUES,
- (2) IMPACT OF INFLATION ON DEBT PROBLEMS,
- (3) PRIVATE BANK LENDING, AND
- (4) POLICY ISSUES.

IT IS ALSO CLEAR THAT THE UNCTAD SECRETARIAT VIEWS THE SECOND IGE MEETING AS AN OPPORTUNITY TO EXPAND ITS MANDATE ON DEBT. FOR THIS REASON, THE USG HAS TAKEN THE POSITION THAT IT IS PREMATURE TO SCHEDULE A SECOND IGE MEETING. WE WILL RESERVE OUR POSITION ON THIS AT A JULY 14 UNCTAD MEETING DEALING WITH SCHEDULING UNCTAD ACTIVITIES FOR THE REMAINDER OF 1977. THE USG WILL ALSO STRESS OUR VIEW THAT IF A SECOND IGE MEETING IS EVENTUALLY SCHEDULED IT IS ESSENTIAL THAT THE TERMS OF REFERENCE OF SUCH A MEETING BE CONFINED SOLELY TO REVIEWING IMPLEMENTATION OF RESOLUTION 94 (IV). THE QUESTIONS OF WHETHER CONFIDENTIAL

PAGE 05 STATE 160950

THERE IS TO BE A SECOND IGE AND ITS MANDATE WILL REMAIN OPEN UNTIL THE 17TH TRADE AND DEVELOPMENT BOARD MEETING BEGINNING AUGUST 23. AT THAT TIME WE WILL RESOLUTELY OPPOSE ANY EXPANSION UNCTAD DEBT MANDATE BEYOND RESOLUTION

94 (IV). (E) ANOTHER UNCTAD IV RESOLUTION ALSO MENTIONED DEBT. THIS WAS RESOLUTION 98 (IV) RELATING TO THE LEAST DEVELOPED COUNTRIES. IT COVERS A BROAD GAMUT OF MEASURES FOR THESE COUNTRIES. PARAGRAPHS 10 (D), (E) AND (F) CALLED FOR SPECIFIC GENERALIZED DEBT CANCELLATION ON LEASE DEVELOPED COUNTRY DEBT. IT ALSO CALLED ON DEVELOPED COUNTRIES TO GIVE "DUE CONSIDERATION" TO SUCH MEASURES AT THE 16TH SESSION OF THE TRADE AND DEVELOPMENT BOARD AND TO "AGREE ON DEFINITE AND FAVORABLE MEASURES TO RELIEVE DEBT BURDENS." (THIS PORTION OF RESOLUTION 98 (IV) HAS A QUESTIONABLE ORIGIN. IT WAS APPARENTLY INSERTED AT A LATE HOUR OF THE UNCTAD IV MEETING, WITHOUT EVER HAVING BEEN SEEN OR APPROVED BY ANY USG DELEGATES AS WELL AS MEMBERS OTHER KEY EUROPEAN DELEGATES.) AT LAST

FALL'S TRADE AND DEVELOPMENT BOARD MEETING THE GROUP-77 PRESSED HARD FOR ACTION ON LEAST DEVELOPED COUNTRY DEBT. WE AND OTHER CREDITOR COUNTRIES ARGUED THAT PROBLEMS OF LEAST DEVELOPED CAN ONLY BE ADDRESSED IN THE CONTEXT OF THEIR OVERALL FINANCIAL SITUATIONS FACED BY THESE COUNTRIES. THE SOLUTION WAS A TRADE AND DEVELOPMENT BOARD RESOLUTION ASKING THE NEXT MINISTERIAL MEETING TO "REVIEW" ALL MEASURES (OF WHICH DEBT IS ONLY A SMALL ELEMENT) TAKEN IN ACCORDANCE WITH RESOLUTION 98 (IV). THE USG AND MAJORITY OF GROUP B COUNTRIES (INCLUDING UK, FRG, FRANCE, JAPAN, CANADA, BELGIUM AND SWITZERLAND) ALSO ADDED A JOINT STATEMENT FOR THE RECORD WHICH STATED THAT THEY HAD GIVEN DUE CONSIDERATION TO PARAGRAPHS (D), (E), AND (F) BUT WERE UNABLE TO ACCEPT THEM. IN OUR VIEW, CREDITOR COUNTRIES HAVE NOW FULFILLED ANY COMMITMENTS THEY MAY HAVE HAD UNDER RESOLUTION 98 (IV) REGARDING LEAST DEVELOPED COUNTRY DEBT.
CONFIDENTIAL

PAGE 06 STATE 160950

3. IN EXPLAINING OUR OPPOSITION TO AN EXPANDED UNCTAD MANDATE ON DEBT, YOU SHOULD MAKE THE FOLLOWING POINT:

(A) WHILE THERE ARE INDIVIDUAL COUNTRY DEBT PROBLEMS, THEY SHOULD BE MANAGEABLE GIVEN THE MAINTENANCE OF REASONABLE GROWTH IN THE INDUSTRIAL COUNTRIES (AND THE IMPACT OF SUCH GROWTH ON LDC EXPORTS), AS WELL AS THE AVAILABILITY OF ADEQUATE FINANCING FROM BOTH PRIVATE AND OFFICIAL SOURCES. IN THIS CONTEXT, THE ROLE OF THE IMF IN ALLEVIATING TEMPORARY BALANCE OF PAYMENTS CONSTRAINTS IS PARTICULARLY IMPORTANT. WE BELIEVE, HOWEVER, THAT THE DEBT ISSUE IS SENSITIVE--PARTICULARLY AS IT RELATES TO PRIVATE MARKET BORROWINGS--AND MUST BE TREATED IN AN OBJECTIVE AND BALANCED MANNER. WE DO NOT BELIEVE UNCTAD IS CAPABLE OF PROVIDING SUCH TREATMENT.

(B) THE UNCTAD SECRETARIAT LOOKS AT DEBT RELIEF SOLELY AS A MEANS OF SUPPLEMENTING AID FLOWS, RATHER THAN A PRO-

CEDURE FOR ADDRESSING SERIOUS DEBT PROBLEMS. IT HAS THUS SUPPORTED AND ENCOURAGED LDC DEMANDS FOR A GENERALIZED (ACROSS THE BOARD) DEBT RELIEF RATHER THAN THE TRADITIONAL "CASE-BY-CASE" APPROACH. IT ALSO FAVORS REPLACING CREDITOR CLUBS WITH A NEW INSTITUTIONAL MECHANISM GEARED TO NEGOTIATING DEBT RELIEF SOLELY ON THE BASIS OF DEVELOPMENT NEED. GIVEN THE SECRETARIAT'S SUSCEPTIBILITY TO LDC PRESSURE, THERE IS LITTLE LIKELIHOOD THAT UNCTAD COULD TREAT THE DEBT ISSUE IN A RATIONAL, OBJECTIVE MANNER. MOREOVER, THE SECRETARIAT'S EXPERTISE ON DEBT MATTERS IS MINIMAL AND ANY STUDIES THEY HAVE DONE ON THE SUBJECT-- IN ADDITION TO LACKING OBJECTIVITY--HAVE BEEN ANALYTICALLY INFERIOR TO SIMILAR STUDIES PREPARED BY THE IMF, THE IBRD

CONFIDENTIAL

PAGE 07 STATE 160950

AND THE OECD.

(C) NEITHER OF THE SECRETARIAT'S PRIMARY OBJECTIVES, I.E., ACCEPTANCE OF THE CONCEPT OF GENERALIZED DEBT RELIEF, AND THE REPLACEMENT OF THE CREDITOR CLUB MECHANISM, IS ACCEPTABLE TO THE USG. WE BELIEVE ANY CONCESSIONS, HOWEVER SLIGHT, ON THESE ISSUES WOULD BE UNPRODUCTIVE IN THAT THEY WOULD RAISE LDC EXPECTATIONS WHILE HAVING A NEGLIGIBLE IMPACT ON THE EXTRAVAGANT DEMANDS BEING MADE UPON US.

(D) WE APPRECIATE THAT THE DEBT SITUATION OF DEVELOPING COUNTRIES MERITS CONTINUED COOPERATION BETWEEN CREDITOR AND DEBTOR COUNTRIES. WE ALSO APPRECIATE THE NEED TO MAINTAIN A DIALOGUE WITH THE LDCS ON THIS ISSUE. WE BELIEVE THAT THE IMF AND THE IBRD ARE VERY WELL EQUIPPED TO MONITOR THE DEBT SITUATION, AND WE WOULD BE PREPARED TO SUPPORT THE IMF/IBRD DEVELOPMENT COMMITTEE AS THE FORUM FOR MAINTAINING A DIALOGUE AMONG INTERESTED PARTIES.

(E) WE DO NOT BELIEVE THE UNCTAD SECRETARIAT'S CONTINUING EFFORTS TO GENERATE GENERALIZED DEBT RELIEF FOR THE LOW INCOME COUNTRIES SERVES THE BEST INTERESTS OF THESE COUNTRIES. WHILE LOW-INCOME COUNTRIES CONFRONT VERY SERIOUS PROBLEMS, VERY FEW (ASIDE FROM INDIA, PAKISTAN AND EGYPT) HAVE A SIGNIFICANT ACCUMULATION OF DEBT. AS A MAY IBRD REPORT ("THE EXTERNAL DEBT OF DEVELOPING COUNTRIES") STATED, "IT MUST BE EMPHASIZED THAT THEIR PROBLEMS ARE NOT ESSENTIALLY THOSE OF DEBT BUT OF DEVELOPMENT." THE SECRETARIAT'S CONTINUED INSISTENCE ON HIGHLIGHTING THE CONTENTIOUS AND FALSE ISSUE OF POOR COUNTRY DEBT DISTRACTS ATTENTION FROM THE MANY REAL DEVELOPMENT ISSUES (QUALITY AND QUANTITY OF AID, TECHNICAL ASSISTANCE, BASIC HUMAN NEEDS OF THE LDCS, ETC.) FACING THESE COUNTRIES.

CONFIDENTIAL

PAGE 08 STATE 160950

(F) WE ALSO BELIEVE THE SECRETARIAT'S ATTEMPT TO DEAL WITH PRIVATE DEBT COULD HARM SERIOUSLY THE DOZEN OR SO HIGHER-INCOME LDCS WHO RELY PRIMARILY ON PRIVATE CAPITAL MARKETS FOR THEIR EXTERNAL RESOURCES. CONTINUED TALK OF THE NEED FOR MASSIVE REFINANCING OF COMMERCIAL DEBT CANNOT HELP BUT UNSETTLE PRIVATE MARKETS AND COULD--IF PUSHED HARD ENOUGH BY THE SECRETARIAT AND THE G-77-- JEOPARDIZE THE AVAILABILITY OF SUCH FINANCING.

(4) THE USG POSITION FOR THE JULY 18-22 MEETING IS THAT THE IGE SHOULD REMAIN WITHIN THE MANDATE OF RESOLUTION 94 (IV). IN EFFECT, WE ARE PREPARED TO DISCUSS THE SPECIFICS OF THE CURRENT DEBT SITUATION, AND TO REVIEW THE

ISSUE AS IT EVOLVED AT CIEC. WE WILL NOT AGREE TO ANY SUGGESTIONS TO BROADEN THE UNCTAD MANDATE BEYOND 94 (IV) NOR WILL WE AGREE TO RENEGOTIATE THE US/EC PROPOSAL AS PRESENTED AT CIEC IN THIS FORUM.

5. IN YOUR CONTACTS WITH HOST GOVERNMENT OFFICIALS, YOU SHOULD EMPHASIZE THAT USG CONSIDERS THIS ISSUE TO BE OF MAJOR IMPORTANCE. YOU SHOULD ALSO STRESS THE IMPORTANCE WE ATTACH TO HAVING A UNIFIED POSITION AMONG MAJOR CREDITOR COUNTRIES. IN THIS CONTEXT, WE WOULD APPRECIATE THE VIEWS OF HOST OFFICIALS. VANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 22-Sep-1999 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LESS DEVELOPED COUNTRIES, INTERNATIONAL ORGANIZATIONS, GOVERNMENT
Control Number: n/a
Copy: SINGLE
Sent Date: 11-Jul-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE160950
Document Source: ADS
Document Unique ID: 00
Drafter: EB/IFD/OMA:BCROWE:CAB
Enclosure: DG ALTERED
Executive Order: N/A
Errors: n/a
Expiration:
Film Number: D770246-0701
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197707105/baaaetfo.tel
Line Count: 303
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: 25048762-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1725452
Secure: OPEN
Status: NATIVE
Subject: UNCTAD AND ("DEBT")
TAGS: EFIN, PORG, UNCTAD
To: BERN BRUSSELS MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/25048762-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009